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**AUDITING AND REPORTING**  
**STANDARDS**  
**FOR AUDITS OF**  
**PUBLIC MENTAL HEALTH CENTERS**

A Publication of the Alabama Department of Examiners of  
Public Accounts

12/06

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## I. INTRODUCTION

This manual was prepared and promulgated by the Department of Examiners of Public Accounts (EPA) under the authority and responsibility provided by Act. No. 205, Acts of Alabama 1967, Page 569. Act No. 205 provides that certified public accountants, subject to the control of the Alabama State Board of Public Accountancy, may audit the books and records of publicly owned hospitals, nursing homes, and other publicly owned medical institutions. These audits must be made in accordance with procedures promulgated by the Chief Examiner of Public Accounts (Chief Examiner).

Specifically, this manual establishes uniform auditing and reporting standards for audits of mental health centers organized under Act No. 310, Acts of Alabama 1967, page 853, which fulfill requirements of the Code of Alabama 1975, §22-21-4 and § 41-5-1 through 41-5-24. This manual establishes that audits of mental health centers are to be made in accordance with the following:

Generally Accepted Auditing Standards as promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA)

Government Auditing Standards, issued by the Comptroller General of the United States

OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments", (5/95) as amended

Requirements for Grants and Cooperative Agreements with State and Local Governments, (Common Rule)

AICPA Audit and Accounting Guides, "State and Local Governments" and "Government Auditing Standards and Circular A-133 Audits"

Single Audit Act Amendments of 1996, (Public Law 104-156), as amended

Alabama Department of Mental Health and Mental Retardation (DMH/MR) Audit Guidelines

OMB Circular A-133, "Audits of States, Local Governments and Non-profit Organizations," (6/03), as amended

OMB Circular A-133 Compliance Supplement

As additional statements and pronouncements are issued by the authoritative accounting and auditing standard setting bodies, they should be adopted and incorporated into this manual unless they are specifically excluded by the Department of Examiners of Public Accounts.

The Single Audit Act Amendments of 1996 established requirements of audits of the Center's financial statements and for testing and reporting on internal controls and compliance with laws and regulations relevant to federal award programs. The audit requirements for the "single audit" set forth in this manual apply to all financial and compliance audits of mental health centers which expend \$500,000 a year or more in federal awards. If less than \$500,000 is expended in federal awards, the mental health center is exempt from the single audit requirements. However, records must be available for review or audit by the federal grantor agency, pass-through entity (Alabama Department of MH/MR) and/or the Department of Examiners of Public Accounts.

NOTE: As a general rule, Medicaid arrangements between the state and providers are contracts for services and not federal financial assistance; therefore, they would not be covered by the Single Audit Act.

This manual contains the various reports required by OMB Circular A-133. If you have any questions concerning the necessary reports for a particular entity, contact the Department of Examiners of Public Accounts Coordinator of Mental Health Audits.

## **II. EFFECTIVE DATE**

The provisions of this manual are effective immediately upon issuance.

## **III. CHIEF EXAMINER TO RECEIVE NOTIFICATION OF ENGAGEMENT AND COPY OF EXTERNAL PEER REVIEW**

The auditor accepting an engagement must notify the Chief Examiner of the engagement in writing prior to beginning the audit. The scope of the audit must be shown and must include a statement, which specifically assures that tests for compliance will be performed and reporting will be in accordance with the standards shown in this manual. The Chief Examiner reserves the right to reject the engagement if the scope of the audit does not appear to be sufficient.

Government Auditing Standards (hereafter referred to as the Yellow Book), issued by the Comptroller General of the United States, states that each audit organization performing audits in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review. An organization seeking to enter into a contract to perform an assignment in accordance with GAGAS should provide a copy of their most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract to the Chief Examiner.

Notification can be made by sending the Chief Examiner a copy of the engagement letter, provided it includes the assurances previously discussed. The auditor should also send a copy of the most recent external peer review and any letter of comment to the Chief Examiner with the copy of the engagement letter.

## **IV. CONTACTS WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS**

The following address should be used for correspondence:

Chief Examiner of Public Accounts  
Department of Examiners of Public Accounts  
P. O. Box 302251  
Montgomery, AL 36130-2251  
Attention: Coordinator of Mental Health Audits

The Department will provide technical assistance upon request. Requests may be made in writing or by telephone at (334) 242-9200. Contact with the Chief Examiner should be made by the auditor when:

- a. The auditor is engaged.
- b. Evidence of fraud, abuse, irregularities or illegal acts is discovered.
- c. There is uncertainty about audit requirements.
- d. The auditor cannot gain access to necessary records
- e. The report is completed and ready for submission to the Chief Examiner.

**V. AUDIT SCOPE**

The scope of the audit must be sufficient to enable the auditor to report on the following:

- a. Fairness of presentation of the financial statements as to the financial position and the results of operations in accordance with generally accepted accounting principles.
- b. Compliance with applicable federal, state and local governmental laws and regulations and the provisions of contract or grant agreements as well as applicable legal opinions and interpretations.
- c. Compliance with the Department of MH/MR contract/agreement, provider agreement, and all applicable laws, rules, and regulations.
- d. The internal control of the Center.

The audit should include all funds under the supervision and control of the Center as well as all component units required to be included as part of the reporting entity by the Governmental Accounting Standards Board.

## **VI. STANDARDS OF FIELD WORK**

Audits are to be performed in conformity with generally accepted auditing standards and generally accepted government auditing standards contained in the Yellow Book that pertain to financial audits.

Procedures used during field work should be guided by the AICPA Audit and Accounting Guides, *State and Local Governments* and *Government Auditing Standards and Circular A-133 Audits* issued by the AICPA and any applicable Statements of Position (SOP) issued by the AICPA. The auditor is not limited to these procedures and should use such procedures as are necessary to perform an audit of sufficient scope according to the required standards.

The Department of Examiners of Public Accounts (EPA) has adopted certain additions to the standards for field work as described for financial audits in the Yellow Book. EPA additions to the Yellow Book standards for field work are as follows:

- a. Yellow Book standards require the auditor to design the audit to provide reasonable assurance of detecting material misstatements resulting from violations of provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. The Chief Examiner of Public Accounts requires that tests of financial transactions be made to determine compliance with state and local statutes, ordinances, regulations and Attorney General's opinions which pertain to financial transactions **regardless of the effect on the financial**



**statements.** The auditor should be knowledgeable about and report on the auditee's compliance with state and local statutes, ordinances, regulations, and Attorney General's opinions which pertain to the auditee's financial transactions both specifically as a mental health center and generally as a public institution.

- b. The Chief Examiner of Public Accounts requires that the Department of Examiners of Public Accounts, Coordinator of Mental Health Audits, be consulted when legal questions arise concerning the interpretation of laws and regulations. Auditors should not release reports that involve possible noncompliance with laws and regulations without consulting first with the Department of Examiners of Public Accounts, Coordinator of Mental Health Audits.
- c. The Chief Examiner requires that the Department of Examiners of Public Accounts, Coordinator of Mental Health Audits, be notified immediately when evidence concerning the existence of fraud or illegal acts is uncovered. The Chief Examiner will assist in determining the nature and extent of fraud and illegal acts and in bringing any resulting charges against officials or employees.
- d. In addition to standards imposed by the Yellow Book and the EPA, the Department of MH/MR has issued a publication entitled Audit Guidelines. The auditor is required to determine whether the entity complied with the Department of MH/MR Audit Guidelines and Department of MH/MR contract/agreement, provider agreement, and all applicable laws, rules, and regulations.

## **VII. REPORTING STANDARDS**

Examples of the required financial statements, reports, and schedules are contained in Appendix I. A brief discussion of each is contained on the following pages. For additional guidance, refer to GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.

A **draft** copy of the report should be sent to the Coordinator of Mental Health Audits upon completion of the audit. After review of the draft report, the Coordinator of Mental Health Audits will notify the auditor of any changes that should be made to the report before it is published. The auditor should send the final corrected copy of the report to the Coordinator of Mental Health Audits. The cover letter accompanying the final report should state if the auditor has delivered copies of the report to the board of the mental health center being audited.

### **A. Financial Statements**

The financial statements of the Center are to be presented in conformity with generally accepted accounting principles (GAAP) for special purpose governments. GAAP consists of the statements and Interpretations of the Governmental Accounting Standards Board (GASB), as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations and other guidance as outlined in the AICPA Codification of Statements on Auditing Standards, AU Section 411.

The key to determining the appropriate financial reporting model for a mental health center is determining whether it has governmental activities or business-type activities (BTA) or both. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by

fees charged to external parties for goods or services. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services (GASB Codification 1300.109). The required financial statements for a mental health center depend on whether the center is engaged in more than one governmental program or has both governmental and business-type activities, or is engaged only in providing business-type activities. This determination should be based on auditor judgment in consultation with the management of the mental health center.

Many mental health centers may choose to report as an entity engaged only in BTA. For this reason, the BTA reporting model is illustrated in Appendix I. The illustrated financial statement examples contained in Appendix I should not be interpreted as an endorsement of one method of presentation over another presentation method allowable under GAAP. A mental health center may choose to report as a special-purpose government engaged in governmental activities or one engaged in both governmental and business-type activities. If other presentation methods are chosen, the reporting guidance in GASB Codification SP20.104-106 should be followed.

If the mental health center reports as an entity engaged only in BTA, it should present only the financial statements required for enterprise funds. The basic financial statements and required supplementary information (RSI) for a mental health center reporting as a BTA are (See GASB Codification Sp20.107):

- Management's Discussion and Analysis (MD &A)
- Enterprise fund financial statements consisting of:
  - a. Statement of net assets or balance sheet
  - b. Statement of revenues, expenses, and changes in fund net assets

c. Statement of cash flows

- Notes to the financial statements
- RSI other than MD&A, if applicable

Assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities. Either a net assets format – assets less liabilities equal net assets – or a balance sheet format – assets equal liabilities plus net assets – may be used. The entity should also establish a policy that defines operating revenues and expenses and disclose it in the summary of significant accounting policies. (See GASB Codification P80.118)

Disclosures relating to the financial statements should be in conformity with disclosure requirements set forth by the GASB. A list of common note disclosures is included in Appendix I. For additional guidance refer to the GASB *Codification of Governmental Accounting and Financial Reporting Standards*.

**B. Required Supplementary Information (RSI)**

Required Supplementary Information (RSI) is financial information that GASB standards require to be presented with, but outside of, the basic financial statements. Depending on a center's specific circumstances, five types of RSI may be required to be presented – 1) Management's Discussion and Analysis (MD&A), 2) Budgetary Comparison Schedule, 3) Infrastructure Condition and Maintenance Data (for centers using the modified approach for infrastructure assets), 4) Pension Trend Data (for certain pension plans and participating employers), and 5) Revenue and Claims Development Trend Data (for public entity risk pools). The MD&A will be the most commonly applicable type of RSI for mental health centers and accordingly is the only RSI discussed in this manual. If the center reports governmental activities

and presents fund financial statements, a budgetary comparison schedule is required for the general fund and for each major special revenue fund that has a legally adopted annual budget. More detailed guidance regarding the other types of RSI can be found in the GASB Codification.

Normally, RSI is presented following the Notes to the Financial Statements. However, MD&A information is the exception and should be presented preceding the financial statements. All other applicable RSI should be presented after the Notes. Below is a brief discussion of the MD&A.

Management's Discussion and Analysis - The MD&A **should be prepared by the entity's management** and should provide an objective and easily readable analysis of the center's financial activities based on currently known facts, decisions or conditions. The MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The information required to be reported in the MD&A is general rather than specific in order to encourage financial managers to effectively report only the most relevant information and to avoid "boilerplate" discussion. The information presented should be confined to the items outlined in GASB Codification 2200.109.

**C. Financial and Legal Compliance Audits**

Auditors should follow the guidance in this manual, the Department of MH/MR Audit Guidelines, generally accepted auditing standards promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), ***Government Auditing Standards*** issued by the Comptroller General of the United States, and other applicable AICPA pronouncements and Statements of Positions (SOPs). Auditors are required to perform tests of compliance in every audit of public mental health centers.

Audits performed in accordance with generally accepted government auditing standards require a “Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”. Specific discussion and guidance on this report follows:

1. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

The purpose of this report is to: 1) report any reportable conditions (including material weaknesses) which are identified as a result of performing the audit of the financial statements, and 2) report occurrences of noncompliance with provisions of laws, regulations, contracts and grants which could have a direct and material effect on the required financial statements. An example of this report is contained in Appendix I.

In addition, the Department of Mental Health/Mental Retardation requires a “Report on Compliance with Department of Mental Health/Mental Retardation Contract”. The purpose of this report is to report whether the entity has complied with the Department of MH/MR’s contract/agreement, provider agreement, and all applicable laws, rules and regulations. Examples are included in Appendix I. Additional guidance concerning this report can be found in the Department of Mental Health/Mental Retardation’s Audit Guidelines.

**D. Federal Compliance Audits (OMB Circular A-133 Audits)**

Federal Single Audits should be performed in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. OMB Circular A-133 contains detailed provisions regarding the auditee's responsibilities, the auditor's responsibilities, and the Federal agency and Pass-through entity's responsibilities. The auditor should be familiar with and follow the guidance provided in OMB Circular A-133. Some of the key provisions are discussed below:

1. Reporting Package

The reporting package should include the following:

- a. Financial statements (including the notes and any RSI) and Schedule of Expenditures of Federal Awards
- b. Summary Schedule of Prior Audit Findings
- c. Auditor's reports (See discussion below)
- d. Corrective Action Plan

2. Auditee's Responsibility

- a. Schedule of Expenditures of Federal Awards - The auditee is required to prepare the Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements. An example of this Schedule is included in Appendix I for illustrative purposes. At a minimum the Schedule should contain the following (OMB Circular A-133, Subpart C, Sec. 310 (b)):
  - (1) A list of individual Federal programs by Federal agency.

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through.
  - (3) Total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
  - (4) Notes that describe the significant accounting policies used in preparing the schedule. (See example in Appendix I.)
  - (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
  - (6) In either the Schedule or the Notes to the Schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end.
- b. Summary Schedule of Prior Audit Findings – The auditee is responsible for follow-up and corrective action on audit findings. To fulfill this responsibility the auditee is required to prepare a “Summary Schedule of Prior Audit Findings” to report the status of all audit findings included in the prior audit’s Schedule of Findings and Questioned Costs relative to Federal Awards. **It should include the reference numbers the auditor assigns to each audit finding. Since it may include audit findings from multiple years, it should include the fiscal year in which the finding initially occurred.** This schedule should include, as a minimum, all of the information required by OMB Circular A-133, Subpart C, Sec. .315 (b).
- c. Corrective Action Plan – The auditee is required to prepare a corrective action plan which addresses each audit finding included in the current year auditor’s reports



**(including the reference numbers the auditor assigns to each audit finding)** and should provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, the corrective action plan should include an explanation and specific reasons. (Subpart C, Sec. 315 (c) of OMB Circular A-133)

- d. Data Collection Form – The auditee is required to submit a data collection form, which states whether the audit was completed in accordance with OMB Circular A-133 and provides other information about the auditee. (See Subpart C, Sec. 320 (b) of OMB Circular A-133) OMB periodically revises the form and content of the Data Collection Form and it is the responsibility of the auditee and the auditor to ensure that the most current form is prepared. The cover letter accompanying the final report that is sent to the Coordinator of Mental Health Audits should state if the Data Collection Form has been submitted to the Federal Audit Clearing House.

The Summary Schedule of Prior Audit Findings and the Corrective Action Plan are a required part of the reporting package and should be included in the reporting package submitted to the Chief Examiner. A completed data collection form should also be submitted to the Chief Examiner for inclusion with the report copy submitted to the Federal clearinghouse. A complete discussion of the auditee's responsibilities is contained in Subpart C, Sec. 300 of OMB Circular A-133.

### 3. Auditor's Reports and Schedules

The auditor should prepare the following reports and schedules. Examples of these reports and schedules are included in Appendix I.

- a. Independent Auditor's Report – an opinion or disclaimer of opinion as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole. (See Example in Appendix I)
- b. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – The purpose of this report is to: 1) report any reportable conditions (including material weaknesses) which are identified as a result of performing the audit of the financial statements, and 2). report occurrences of noncompliance with provisions of laws, regulations, contracts and grants which could have a direct and material effect on the required financial statements. (See Example in Appendix I)
- c. Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 – The purpose of this report is to: 1) report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on each major program, and 2) report on the entity's internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major programs. (See Example in Appendix I)
- d. Schedule of Findings and Questioned Costs – This schedule should contain each audit finding with a corresponding reference number to allow for easy referencing of the audit

findings during follow-up (See OMB Circular A-133, Sec.510 (c)). An example of a Schedule of Findings and Questioned Costs is included in Appendix I. It is for illustrative purposes only. The Schedule of Findings and Questioned Costs should include the following three components (OMB Circular A-133, Sec. 505(d)):

1. Summary of the Auditor's Results which should include:
  - a. the type of report issued on the financial statements (i.e., unqualified opinion, qualified opinion, adverse opinion, etc.)
  - b. where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were considered material weaknesses.
  - c. a statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.
  - d. where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
  - e. the type of report the auditor issued on compliance for major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)
  - f. a statement as to whether the audit disclosed any audit findings, which the auditor is required to report under Sec. 510(a) of OMB Circular A-133.
  - g. an identification of major programs.
  - h. the dollar threshold used to distinguish between Type A and Type B programs.

- i. a statement as to whether the auditee qualified as a low risk auditee in accordance with Sec. 530 of OMB Circular A-133.
2. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.
3. Findings and questioned costs for Federal awards which shall include audit findings as defined in Sec. 510(a) of OMB Circular A-133. Section 510(a) of OMB Circular A-133 requires the auditor to report the following as audit findings in the Schedule of Findings and Questioned Costs:
  - a. Reportable conditions in internal control over major programs. The auditor's determination of whether a deficiency in internal control is a reportable condition for the purpose of reporting an audit finding is in relation to **a type of compliance requirement for a major program** or an audit objective identified in the *Compliance Supplement*. The auditor should identify reportable conditions, which are individually or cumulatively material weaknesses.
  - b. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The determination of whether noncompliance is material for reporting purposes should be in relation to a type of compliance requirement or an audit objective identified in the *Compliance Supplement*.
  - c. Known questioned costs, which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of

questioned costs on the opinion on compliance, the auditor should consider the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor is also required to report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

- d. Known questioned costs, which are greater than \$10,000 for a Federal program, which is not audited as a major program.
- e. The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the Schedule of Findings and Questioned Costs for Federal awards.
- f. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the Schedule of Findings and Questioned Costs for Federal Awards.
- g. Instances where the results of audit follow-up procedures disclosed that the Summary Schedule of Prior Audit Findings prepared by the auditee materially misrepresents the status of any prior audit finding.

Audit findings should be presented in sufficient detail for the auditee to prepare a Corrective Action Plan and take correction action and for Federal agencies and pass-through

entities to arrive at a management decision. Audit findings should contain the specific information outlined in Section 510 (b) of OMB Circular A-133.

*Note: A Schedule of Findings and Questioned Costs will always be required, even if the audit did not disclose any reportable conditions or instances of noncompliance, due to the information required to be reported under “Summary of Auditor’s Results”.*

**E. Additional Reporting Requirements**

The Department of Examiners of Public Accounts (EPA) has adopted the following additional reporting requirements:

1. In addition to the reporting responsibilities regarding fraud, illegal acts, violations of provisions of contracts or grant agreements, other noncompliance with laws and regulations or abuse contained in the Yellow Book, the Chief Examiner of Public Accounts requires that the Department of Examiners of Public Accounts, Coordinator of Mental Health Audits also be notified.
2. The Chief Examiner requires that the Department of Examiners of Public Accounts, Coordinator of Mental Health Audits, be notified of any indications of fraud, illegal acts, violations of provisions of contracts or grant agreements, other noncompliance with laws and regulations or abuse prior to preparation of the final report.
3. A Schedule of Board Members should be included. Refer to the example report in Appendix I of this Manual for guidance concerning the format and content of this schedule.

## **VIII. PROCEDURES FOR REPORTING**

### **A. Form and Content**

The overall format of the report should generally be as shown in the example report (Appendix I). As discussed previously, the format and content of the financial statements will vary depending on the reporting model for the individual mental health center.

The appropriate note disclosures are a matter of professional judgment and will vary depending on the reporting model and the specific circumstances. Included in Appendix I is an outline of note disclosures which are typically applicable to governmental entities. Professional judgment, along with materiality considerations, should be used in determining which disclosures are appropriate for a fair presentation in accordance with GAAP for a particular mental health center.

### **B. SAFE Program**

Mental Health Centers organized pursuant to Act No. 310, Acts of Alabama 1967, are subject to the provisions of the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The fact that public mental health centers are subject to the SAFE Act has an impact on the information required by generally accepted accounting principles to be disclosed in the notes to the financial statements on audits of these centers. Auditors performing audits of the public mental health centers should be aware of the provisions so that they can determine compliance with the Act and ensure the appropriate note disclosure is made.

Public mental health centers' monies that have been deposited with financial institutions or banks in accordance with the provisions of the SAFE Program are considered fully insured and collateralized for GASB Statement No. 3 note disclosure purposes. Below is a brief summary of the provisions of the SAFE Program:

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Section 41-14A-1 through 41-14A-14. All public entities covered under the SAFE Program are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs). These public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depositary Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30<sup>th</sup> to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.

The auditor should perform procedures to determine whether the provisions of the SAFE Act have been complied with and ensure that the appropriate disclosures have been made in the notes to the financial statements.

### **C. Special Reports**

All management letters and audit reports submitted to the auditee must also be submitted to the Chief Examiner of Public Accounts along with the copies of the audit report. The management letter will become a part of the permanent file.



**D. Audit Report Distribution**

Reports must be forwarded to the Chief Examiner of Public Accounts, postpaid, by registered mail not later than March 31<sup>st</sup> of the year following the end of the audit period. If a time extension is needed, a request should be made in writing to the Coordinator of Mental Health Audits. Reports are not considered final until formally approved and released by the Chief Examiner of Public Accounts. The auditor may issue the same basic financial statements contained in the report forwarded to the Chief Examiner to the auditee to satisfy the requirements of other financial statement users. The auditor should submit one copy for the Director, one copy for each Board member (if the auditor has not furnished a copy to Board members), and 20 extra copies of the audit report to the Chief Examiner. The distribution and release of the reports forwarded to the EPA is the responsibility of the Chief Examiner.

**E. Additional Statements on Auditing Standards and Accounting Pronouncements**

As additional statements on auditing standards and accounting pronouncements are issued by applicable standards setting bodies (AICPA, GASB, Comptroller General of the United States, etc), they will be adopted and incorporated into this manual unless the Chief Examiner specifically excludes them.

When new pronouncements are issued, the Department of Examiners of Public Accounts will strive to update the manual in a timely manner. However, it is the responsibility of the auditor to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles and that the audit is conducted in accordance with all applicable auditing standards.

## **APPENDIX I**

### **SAMPLE AUDIT REPORT OF MENTAL HEALTH CENTER BOARD** **SEPTEMBER 30, 2XXX**

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OMB Data Collection Form – This form should be submitted to the Federal Audit Clearing House by the auditor. The cover letter for the final report should state that this form has been sent to the Federal Audit Clearing House.	

## **Independent Auditor's Report**

We have audited the accompanying basic financial statements of the \_\_\_\_\_ Mental Health Board, Inc., as of and for the years ended September 30, 2XX7 and 2XX6, as listed in the table of contents as Exhibits 1 through \_\_\_\_\_. These basic financial statements are the responsibility of the \_\_\_\_\_ Mental Health Board, Inc.'s management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the \_\_\_\_\_ Mental Health Board, Inc., as of September 30, 2XX7 and 2XX6, and its changes in financial position, including cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated \_\_\_\_\_ on our consideration of \_\_\_\_\_'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audits.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.<sup>i</sup>

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of \_\_\_\_\_ Mental Health Board, Inc., taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit \_\_\_\_\_) as required by U.S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and***

**Non-Profit Organizations**, and supplementary information (Exhibits \_\_\_\_ through \_\_\_\_ ) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

---

Firm Name

DATE - (Last day of field work)

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**NOTE: This is an example of an unqualified report for a Mental Health Board on comparative financial statements reporting using the BTA model.**

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<sup>i</sup> **If the entity failed to prepare an MD&A, use the following paragraph instead:**

The \_\_\_\_\_ Mental Health Board, Inc., has not presented a Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

**If there are material departures from the guidelines established by GASB for MD&A, use the following paragraph:**

The Management's Discussion and Analysis (MD&A) on pages \_\_\_\_ through \_\_\_\_ is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A is not in conformity with accounting principles generally accepted in the United States because [*describe the material departure(s) from GAAP*].

**Mental Health Board, Inc.**

**Balance Sheets**  
**September 30, 2XX7 and 2XX6**  
**(In Thousands)**

	<u>2XX7</u>	<u>2XX6</u>
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$XXXXX	\$XXXXX
Short Term Investments	XXXXX	XXXXX
Patient Receivables, Less Allowance for Uncollectible Receivables of \$2,125 in 2XX7 and \$2,040 in 2XX6	XXXXX	XXXXX
Drug Inventory	XXXXX	XXXXX
Prepaid Expenses	XXXXX	XXXXX
Supplies	XXXXX	XXXXX
Other Assets	XXXXX	XXXXX
Total Current Assets	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>Noncurrent Assets</u></b>		
Restricted Cash and Cash Equivalents	XXXXX	XXXXX
Capital Assets:		
Land	XXXXX	XXXXX
Depreciable buildings, property, and equipment, net	XXXXX	XXXXX
Total Noncurrent Assets	<u>XXXXX</u>	<u>XXXXX</u>
Total Assets	<u><u>\$XXXXX</u></u>	<u><u>\$XXXXX</u></u>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts Payable	\$XXXXX	\$XXXXX
Accrued Salaries	XXXXX	XXXXX
Accrued Payroll Taxes	XXXXX	XXXXX
Accrued Interest Payable	XXXXX	XXXXX
Compensated Absences	XXXXX	XXXXX
Notes Payable	XXXXX	XXXXX
Other Liabilities	XXXXX	XXXXX
Total Current Liabilities	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>Noncurrent Liabilities</u></b>		
Deferred Revenue	XXXXX	XXXXX
Compensated Absences	XXXXX	XXXXX
Notes Payable	XXXXX	XXXXX
Other Liabilities	XXXXX	XXXXX
Total Noncurrent Liabilities	<u>XXXXX</u>	<u>XXXXX</u>
Total Liabilities	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, net of related debt	XXXXX	XXXXX
Restricted for:		
Debt Service	XXXXX	XXXXX
Other	XXXXX	XXXXX
Unrestricted	XXXXX	XXXXX
Total Net Assets	<u>XXXXX</u>	<u>XXXXX</u>
Total Liabilities and Net Assets	<u><u>\$XXXXX</u></u>	<u><u>\$XXXXX</u></u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

**Mental Health  
Board, Inc.**

**Statements of Revenues, Expenses, and Changes in  
Net Assets  
For the Years Ended September 30, 2XX7 and 2XX6**

	<u>2XX7</u>	<u>2XX6</u>
<b><u>OPERATING REVENUES</u></b>		
Patient Fees, net (See Note XX)	\$XXXXX	\$XXXXX
Federal Grants and Contracts	XXXXX	XXXXX
State and Local Grants and Contracts	XXXXX	XXXXX
Other Operating Revenues	XXXXX	XXXXX
Total Operating Revenues	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>OPERATING EXPENSES*</u></b>		
Salaries and Fringe Benefits	XXXXX	XXXXX
Insurance	XXXXX	XXXXX
Depreciation	XXXXX	XXXXX
Utilities	XXXXX	XXXXX
Travel	XXXXX	XXXXX
Other	XXXXX	XXXXX
Total Operating Expenses	<u>XXXXX</u>	<u>XXXXX</u>
Operating Income (Loss)	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Investment Income (net of investment expense of \$ XXXX)	XXXXX	XXXXX
Contributions	XXXXX	XXXXX
Interest on Capital Asset-Related Debt	XXXXX	XXXXX
Net Nonoperating Revenues (Expenses)	<u>XXXXX</u>	<u>XXXXX</u>
Income Before Other Revenue, Expenses, Gains or Losses	<u>XXXXX</u>	<u>XXXXX</u>
Capital Grants and Gifts	<u>XXXXX</u>	<u>XXXXX</u>
Increase (Decrease) in Net Assets	XXXXX	XXXXX
Net Assets - Beginning of Year	<u>XXXXX</u>	<u>XXXXX</u>
Net Assets - End of Year	<u><u>\$XXXXX</u></u>	<u><u>\$XXXXX</u></u>

\* - This example uses the "natural" classification for expenses. Some entities may choose to report expenses by function.

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

**Mental Health Board, Inc.**

**Statements of Cash Flows**  
**For the Years Ended September 30, 2XX7 and 2XX6**  
**(In Thousands)**

	<u>2XX7</u>	<u>2XX6</u>
<b><u>CASH FLOWS FROM OPERATING</u></b>		
<b><u>ACTIVITIES</u></b>		
Cash Received from Patients	\$XXXXX	\$XXXXX
Payments to Employees	XXXXXX	XXXXXX
Payments to Suppliers and Others	XXXXXX	XXXXXX
Other Receipts (Payments)	XXXXXX	XXXXXX
Net Cash Provided (Used) by Operating Activities	<u>XXXXXX</u>	<u>XXXXXX</u>
 <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>		
Gifts and Grants received for other than Capital Purposes	<u>XXXXXX</u>	<u>XXXXXX</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>XXXXXX</u>	<u>XXXXXX</u>
 <b><u>CASH FLOWS FROM CAPITAL AND</u></b>		
<b><u>RELATED FINANCING ACTIVITIES</u></b>		
Proceeds from Capital Debt	XXXXXX	XXXXXX
Capital Grants and Gifts	XXXXXX	XXXXXX
Proceeds from Sale of Capital Assets	XXXXXX	XXXXXX
Purchases of Capital Assets	XXXXXX	XXXXXX
Principal Paid on Capital Debt	XXXXXX	XXXXXX
Interest Paid on Capital Debt	<u>XXXXXX</u>	<u>XXXXXX</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>XXXXXX</u>	<u>XXXXXX</u>
 <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from Sales and Maturities of Investments	XXXXXX	XXXXXX
Interest on Investments	XXXXXX	XXXXXX
Purchase of Investments	<u>XXXXXX</u>	<u>XXXXXX</u>
Net Cash Provided (Used) by Investing Activities	<u>XXXXXX</u>	<u>XXXXXX</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	XXXXXX	XXXXXX
Cash and Cash Equivalents - Beginning of Year	<u>XXXXXX</u>	<u>XXXXXX</u>
Cash and Cash Equivalents - Ending of Year	<u>\$XXXXXX</u>	<u>\$XXXXXX</u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.



Mental Health Board, Inc.

**Statement of Cash Flows - Continued**  
**For the Years Ended September 30, 2XX7 and 2XX6**

	<u>2XX7</u>	<u>2XX6</u>
<b><u>Reconciliation of Net Operating Revenues (Expenses) to</u></b>		
<b><u>Net Cash Provided (Used) by Operating Activities:</u></b>		
Operating Income (Loss)	\$XXXXX	\$XXXXX
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided		
(Used) by Operating Activities:		
Depreciation Expense	XXXXX	XXXXX
Changes in Assets and Liabilities:	XXXXX	XXXXX
(Increase)/Decrease in Patient Recevables, net	XXXXX	XXXXX
(Increase)/Decrease in Inventory	(XXXXX)	(XXXXX)
(Increase)/Decrease in Prepaid Expenses and Supplies	(XXXXX)	(XXXXX)
(Increase)/Decrease in Other Assets	XXXXX	XXXXX
Increase/(Decrease) in Accounts Payable	XXXXX	XXXXX
Increase/(Decrease) in Accrued Salaries and Payroll Taxes	XXXXX	XXXXX
Increase/(Decrease) in Accrued Interest Payable	(XXXXX)	(XXXXX)
Increase/(Decrease) in Compensated Absences	XXXXX	XXXXX
Increase/(Decrease) in Deferred Revenue	XXXXX	XXXXX
Increase/(Decrease) in Other Liabilities	XXXXX	XXXXX
Net Cash Provided (Used) by Operating Activities	<u><u>\$XXXXX</u></u>	<u><u>\$XXXXX</u></u>

Note: The required information about noncash investing, capital, and financial activities is not illustrated.

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20    through September 30, 20**

**Note:** Professional judgment along with materiality considerations should be used in determining which disclosures are appropriate for a fair presentation in accordance with GAAP. In addition, the reporting model (i.e., governmental, business-type, etc.) chosen by the entity will have an impact on the appropriate note disclosures required. All of the notes included in this checklist will not be applicable to a mental health center board. The notes should provide the necessary disclosure of material items, the omission of which would cause the financial statements to be misleading.

1. Summary of Significant Accounting Policies
A. Reporting Entity (GASB Cod. Sec. 2100.109-111, 2600.120)
B. Government-Wide and Fund Financial Statements (if applicable)
(1) Description of government-wide financial statements (GASB Cod. Sec. 220.111)
(2) Transactions included in program revenues and policy for allocating indirect expenses to functions (GASB Cod. Sec. 2200.126 - .131 and .133)
(3) Fund Statements and activities accounted for in each major fund, nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds by fund type (GASB Cod. Sec. 2300.901)
C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(1) Measurement Focus & Basic of Accounting used in government-wide (GASB Cod Sec 1600.103 - .104) and fund financial statements
(2) Policy for eliminating internal activities (GASB Cod. Sec. 2200.128)
(3) Revenue recognition policies used in fund financial statements (GASB Cod. Sec. 1600.106 - .115; .130; .134)
(4) Restricted/Unrestricted resources used (GASB Cod. Sec. 1800.134)
(5) Policy for applying FASB pronouncements issued after 11/20/89 to business-type activities (GASB Cod. Sec. 2300.106(a)10)
(6) Operating and Nonoperating Revenues (GASB Cod Sec. P80.118)
D. Assets, Liabilities, and Net Assets/Fund Balances (describe in order of appearance)
(1) Deposits and Investments (GASB Cod Sec. 2450.106 - .108)
(2) Reverse Repurchase and Dollar Reverse Repurchase Agreements (GASB Cod. Sec. I55.106 - .113)
(3) Receivables
(4) Inventories

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20    through September 30, 20**

(5) Prepaid Items
(6) Restricted Assets
(7) Capital Assets
(a) Policy for capitalizing assets and estimating useful lives (GASB Cod. Sec. 1400.102 and .104)
(b) Modified Approach (if applicable)
(c) Capitalization of Interest Costs Incurred during Construction of Fixed Assets (GASB Cod. Sec. 1400.111)
(7) Long-Term Obligations
(a) Bond Discounts/Premiums/Issuance Costs
(b) Deferred Charges
(8) Compensated Absences (GASB Cod. Sec. C60-107-.111)
(9) Net Assets (GASB Cod. Sec. 1800.141)
2. Reconciliation of Government-Wide and Fund Financial Statements (GASB Cod. Sec. 2200.151) (if applicable)
3. Stewardship, Compliance, and Accountability
A. Significant Violations of Finance-Related Legal & Contractual Provision and actions taken to address such violations (GASB Cod. Sec. 1200.112)
B. Budgets
C. Deficit Net Assets/Fund Balances of Individual Funds (GASB Cod. Sec. 2300.106)
4. Deposits and Investments (Including Derivatives & Similar Debt, if applicable) (GASB Cod. Sec. C20 & I50 and GASB Technical Bulletin 94-1)
5. Securities Lending Transactions (GASB Cod. Sec. I60.109-.114)
6. Receivables (GASB Cod. Sec. 2300.119)
7. Capital Assets, including Collections not Capitalized (GASB Cod. Sec. 1400 & 2300.111-.113 & .115)
8. Capital Asset Impairments
9. Termination Benefits (effective for FY 06 audits. GASB Cod. Sec. T25)
10. Pension Plan Obligations (GASB Cod. Sec. P20 and Pe5 and Po50)

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20    through September 30, 20**

11. Postemployment Benefits other than Pension Benefits (GASB Cod. Sec. P50.105 - .107)
12. Other Employee Benefits
13. Construction and Other Significant Commitments
14. Claims and Judgments (GASB Cod. Sec. C50.115 & .144)
15. Accounts Payable (GASB Cod. Sec. 2300.119)
16. Lease Obligations (capital, operating & direct financing) (GASB Cod. Sec. L20.124 & .125)
17. Short-term Debt and Liquidity (including borrowing during the year – GASB Cod. Sec. 2300.118)
18. Long-term Debt
(a) Long-Term Liabilities, including which fund pays debt and description of individual bond issues outstanding (GASB Cod. Sec. 2300.114 & .906 Note 2)
(b) Amortization of discounts/premiums and issuance costs
(c) Terms of interest rate changes of variable-rate debt (GASB Cod. Sec. 1500.118)
(d) Bonds authorized but unissued
(e) Synopsis of revenue bond covenants
(f) Special assessment debt and related activities (GASB Cod. Sec. S40.126 - .127)
(g) Debt refundings and extinguishments (GASB Cod. Sec. D20.111 - .115)
(h) Demand bonds (GASB Cod. Sec. D30.111)
(i) Bond, tax, and revenue anticipation notes (GASB Cod. Sec. B50)
(j) Interest expense included in direct expenses on Statement of Revenues, Expenses and Changes in Net Assets (GASB Cod. Sec. 2200.131)
18. Unemployment Compensation
19. Conduit Debt Obligations (GASB Cod. Sec. C65.102)
20. Risk Management Activities (GASB Cod. Sec. C50.115; .144 & .145)
21. Interfund Receivables and Payables and interfund eliminations
A. Due To/From Other Funds (GASB Cod. Sec. 2300.120)
B. Transfers In/Out (GASB Cod. Sec. 2300.121)

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20    through September 30, 20**

22. On-Behalf Payments for Fringe Benefits and Salaries (GASB Cod. Sec. N50.134)
23. Unusual or Infrequent Significant Transactions not within Control of Management (GASB Cod. Sec. 2200.141 & .159)
24. Restricted Net Assets imposed by enabling legislation (GASB Statement No. 46)
25. Donor-restricted Endowments (GASB Cod. Sec. 2300.117)
26. Segment Information (GASB Cod. Sec. 2500)
27. Joint Ventures/Jointly Governed Organizations (GASB Cod. Sec. J50.109 & .110)
28. Related Parties (GASB Cod. Sec. 2300.107)
29. Summary of Significant Contingencies (GASB Cod. Sec. 1500.114 & Sec. C50.115)
30. Significant Effects of Subsequent Events (GASB Cod. Sec. 2300.106 & C50.148)
31. Deficit Cash Balances
32. Restatements
33. Substantial Doubts About Going Concerns (AU Section 341)
34. Nonexchange Transactions (not measurable or probable of collection) (GASB Cod. Sec. N50.108)

## **SUPPLEMENTARY INFORMATION**

Mental Health  
Board, Inc.

Schedule of Revenues  
October 1, 2XXX through September 30, 2XXX

	Federal Government	State Government	Local Government	Fees	Other
Department of Health and Human Services Grants and Contracts	\$ 746,728.46	\$	\$	\$	\$
State Department of Mental Health Grants and Contracts		752,734.84			
Counties:					
Murphy			24,563.00		
DeLoach			36,721.00		
Merch			15,875.00		
Astor			42,646.00		
Moran			59,495.00		
Patient Fees				115,595.53	
Rental Income					36,879.33
Interest Income					13,395.77
Disposition of Equipment					19,724.90
Miscellaneous					3,855.72
Total Revenues	<u>\$ 746,728.46</u>	<u>\$752,734.84</u>	<u>\$ 179,300.00</u>	<u>\$ 115,595.53</u>	<u>\$ 73,855.72</u>

Mental Health  
Board, Inc.

Schedule of Expenses  
October 1, 2XXX through September 30, 2XXX

	Administrative Expenses	Program Expenses	Total Expenses
Salaries	\$ 177,059.73	\$ 899,605.46	\$ 1,076,665.19
Social Security	11,890.98	56,396.25	68,287.23
Unemployment Tax	4,341.00		4,341.00
Retirement	10,778.69	46,304.36	57,083.05
Disability	2,681.83	10,746.04	13,427.87
Insurance-Group	5,010.78	24,583.05	29,593.83
Travel	3,577.17	27,232.14	30,809.31
Utilities	20,206.86	4,485.05	24,691.91
Telephone	25,195.98	6,015.98	31,211.96
Equipment and Improvements	5,474.65	6,053.93	11,528.58
Repairs and Maintenance	9,930.48	1,947.18	11,877.66
Janitorial Supplies	11,349.34	3,126.33	14,475.67
Printing and Subscriptions	15,541.75	1,105.21	16,646.96
Client Transportation	314.80	1,067.05	1,381.85
Insurance-General	14,925.50	3,799.00	18,724.50
Rent	198.00	16,521.20	16,719.20
Office Supplies	8,945.79	5,032.07	13,977.86
Miscellaneous	1,911.66	447.27	2,358.93
Dues	1,254.43	35.00	1,289.43
Legal and Auditing	6,338.47		6,338.47
Data Processing	21,344.47		21,344.47
Food and Lounge		10,758.79	10,758.79
Testing and Program Supplies		7,218.48	7,218.48
Hospital Costs		59,034.50	59,034.50
Pharmacy		42,260.10	42,260.10
Psychiatrist		18,656.37	18,656.37
Medical and Dental		1,045.83	1,045.83
Uncollectible Patient Receivables	4,675.00		4,675.00
Total Expenses	<u>\$ 362,947.36</u>	<u>\$ 1,253,476.64</u>	<u>\$ 1,616,424.00</u>



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2XXX

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA No.	Pass-through Grantor's No.	Assistance Period	Budget		Revenue Recognized	Expenditures
				Total	Federal Share		
<u>U. S.Department of Health &amp; Human Services Passed Through the Alabama Department of Mental Health/ Mental Retardation</u>							
Block Grant for the Prevention and Treatment of Substance Abuse	93.959	18B1ALADMS-02	10/1/2XXX- 9/30/2XXX	\$ 300,000	\$ 250,000	\$ 250,000	\$ 250,000
Block Grant for Community Mental Health Services	93.958	3H8ODA21YO	10/1/2XXX- 9/30/2XXX	150,000	50,000	50,000	50,000
Total U. S. Department of Health and Human Services				450,000	300,000	300,000	300,000
Total Federal Awards				\$450,000	\$300,000	\$ 300,000	\$ 300,000

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

Note: These program titles, CFDA Nos., and grant numbers are for illustrative purposes only.

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***Notes to the Schedule of Expenditures  
Of Federal Awards  
For the Year Ended September 30, 2XXX***

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**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the \_\_\_\_\_ and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

**Note 2 - Subrecipients<sup>1</sup>**

Of the federal expenditures presented in the schedule, the \_\_\_\_\_ provided federal awards to subrecipients as follows:

<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
Block Grant for the Prevention and Treatment Of Substance Abuse Program	93.959	\$85,000

**Note 3 - Other**

*The following must be included in either the Schedule of Expenditures of Federal Awards or in the notes to the schedule, **if applicable** (normally these will be presented in the schedule):*

- ☐ *Non-cash assistance Federal awards (e.g., donated property, food commodities, etc.).*
- ☐ *Amounts of insurance (involving Federal Programs) in effect during the year*
- ☐ *Loans or loan guarantees (involving Federal Programs) outstanding at year end.*

*Each of the above must be explained in the notes to the Schedule of Expenditures of Federal Awards if not included in the schedule.*

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<sup>1</sup> Circular A-133 requires, to the extent practical, an identification of the total amount provided to subrecipients from each federal program. The Federal program in the Schedule of Expenditures of Federal Awards should be referenced to the note (i.e., See Note 2). Include this note only if the entity has subrecipients.

## **ADDITIONAL INFORMATION**

Board of Directors and Officials  
October 1, 2XXX through September 30, 2XXX

Board Member			Term Expires
Hon. John Jenkins*	Member	308 Sawmill Drive Smithville, AL 36903	2XXX
Hon. Sally Myers	Treasurer	Route 4, Box 297-C Anytown, AL 34567	2XXX
Hon. Sam Thomas*	Member	1415 Green Street Johnson, AL 36904	2XXX
Hon. May Davis*	Chairman	1601 Keith Circle Anytown, AL 35467	2XXX
Hon. Nathan Stuart	Vice- Chairman	354 Tooson Way Johnson, AL 36904	2XXX
Hon. Paul White*	Member	1503 Dorothy Drive Anytown, AL 34567	2XXX
Hon. Doug Sealey	Secretary	Route 4 Anytown, AL 34567	2XXX
Hon. Mike Jones	Member	785 Stringer Street Johnson, AL 36904	2XXX
Hon. Pete Norris*	Member	235 Cheatham Way Smithville, AL 36903	2XXX
Hon. Nancy Watkins	Member	Route 2, Box 19-C Johnson, AL 36904	2XXX

\*- Denotes member of Executive Committee

Officials

Hon. Bill Waters	Director	XYZ Mental Health Center 1500 Sunshine Court Smithville, AL 36903
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## Example 1

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of \_\_\_\_\_ as of and for the year ended September 30, 20\_\_, and have issued our report thereon dated \_\_\_\_\_, 20\_\_.<sup>1</sup> We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered \_\_\_\_\_'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.<sup>2</sup>

#### Compliance and Other Matters<sup>3</sup>

As part of obtaining reasonable assurance about whether \_\_\_\_\_'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.<sup>4</sup>

This report is intended solely for the information and use of the audit committee, management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.<sup>5</sup>

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Name of Firm

Date - (Last day of field work)

**NOTE: This report is used when there are no reportable instances of noncompliance and no material weaknesses (no reportable conditions identified).**

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<sup>1</sup> Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.).

<sup>2</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of \_\_\_\_\_ in a separate letter dated \_\_\_\_\_.

<sup>3</sup> Other Matters are certain findings of fraud and abuse. This heading and the reference to “other matters” in the following paragraph should appear in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

<sup>4</sup> If the auditor has issued a separate letter to management to communicate matters that do not meet the reporting criteria of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

However, we noted certain matters that we have reported to the management of \_\_\_\_\_ in a separate letter dated \_\_\_\_\_.

<sup>5</sup> If this report is issued for an audit that is not subject to OMB Circular A-133 (Yellow Book only audits), this sentence should be modified as follows:

This report is intended solely for the information and use of management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

## Example 2

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of \_\_\_\_\_ as of and for the year ended September 30, 20\_\_, and have issued our report thereon dated \_\_\_\_\_, 20\_\_.<sup>1</sup> We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered \_\_\_\_\_'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect \_\_\_\_\_'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items [*List related finding reference numbers, for example, 02-1, 02-2, and 02-3*].

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.<sup>2 3</sup>

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether \_\_\_\_\_'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items [*List*

*related finding reference numbers, for example, 02-1 and 02-2].<sup>4</sup>*

This report is intended solely for the information and use of the audit committee, management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.<sup>5</sup>

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Name of Firm

Date - (Last day of field work)

**NOTE: This report is used when there are reportable (material) instances of noncompliance and reportable conditions.**

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<sup>1</sup> Describe any departure from the standard report (e.g. qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)

<sup>2</sup> If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following:

However, of the reportable conditions described above, we consider items *[List related finding reference numbers, for example 02-1 and 02-3]* to be material weaknesses.

<sup>3</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following at the end of the paragraph:

We also noted other matters involving the internal control over financial reporting that we have reported to management of \_\_\_\_\_ in a separate letter dated \_\_\_\_\_.

<sup>4</sup> If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting of Government Auditing Standards, this paragraph should be modified to include a statement such as the following:

We also noted certain matters that we have reported to management of \_\_\_\_\_ in a separate letter dated \_\_\_\_\_.

<sup>5</sup> If this report is issued for an audit that is not subject to OMB Circular A-133 (Yellow Book only audits), this sentence should be modified as follows:

This report is intended solely for the information and use of management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

Also, all reference to the Schedule of Finding and Questioned Costs should be removed and , instead, a description of the findings should be included in the report.



### Example 3

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the compliance of \_\_\_\_\_ with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 20\_\_\_\_. \_\_\_\_\_'s major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of \_\_\_\_\_'s management. Our responsibility is to express an opinion on \_\_\_\_\_'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about \_\_\_\_\_'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of \_\_\_\_\_'s compliance with those requirements.

In our opinion, \_\_\_\_\_ complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 20\_\_\_\_. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items *[List related finding reference number, for example, 02-3 and 02-6]*.<sup>1</sup>

### Internal Control Over Compliance

The management of \_\_\_\_\_ is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered \_\_\_\_\_'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control

over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Name of Firm

Date - (Last day of field work)

**NOTE: This report is used when an unqualified opinion on compliance and no material weaknesses (no reportable conditions) are reported.**

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<sup>1</sup> When there are no such instances of noncompliance identified in the Schedule of Findings and Questioned Costs, the last sentence should be omitted.

#### Example 4

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

#### Compliance

We have audited the compliance of \_\_\_\_\_ with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 20\_\_\_. \_\_\_\_\_'s major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of \_\_\_\_\_'s management. Our responsibility is to express an opinion on \_\_\_\_\_'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about \_\_\_\_\_'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of \_\_\_\_\_'s compliance with those requirements.

As described in item [*List related finding reference number, for example, 02-01*] in the accompanying Schedule of Findings and Questioned Costs, \_\_\_\_\_ did not comply with requirements regarding [*identify type(s) of compliance requirement, e.g. Activities Allowed or Unallowed, Allowable Costs/Costs Principles, Cash Management, etc.*] that are applicable to its [*identify major federal program(s)*]. Compliance with such requirements is necessary, in our opinion, for \_\_\_\_\_ to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, \_\_\_\_\_ complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 20\_\_\_.<sup>1</sup>

## Internal Control Over Compliance

The management of \_\_\_\_\_ is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered \_\_\_\_\_'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect \_\_\_\_\_'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items *[List related finding reference numbers, for example, 02-7, 02-8 and 02-9]*.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.<sup>2</sup>

This report is intended solely for the information and use of the audit committee, management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties .

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Name of Firm

**NOTE: This report is used when a qualified opinion on compliance and reportable conditions are reported.**

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<sup>1</sup> When other instances of noncompliance are identified in the Schedule of Findings and Questioned Costs as required by OMB Circular A-133, the following sentence should be added:

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items *[List related finding reference number, for example, 02-3 and 02-6]*.

<sup>2</sup> If material weaknesses are disclosed, replace the last sentence in this paragraph with the following:

However, of the reportable conditions described above, we consider items *[List related finding reference number, for example 02-8 and 02-9]* to be material weaknesses.

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## *Schedule of Findings and Questioned Costs*

*For the Year Ended September 30, 20\_\_*

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**NOTE:** This example is for illustrative purposes only. The auditor does not have to follow the format provided. However, all of the necessary components as outlined in OMB Circular A-133, Subpart E, Section 505 (d) must be included.

### **Section I - Summary of Auditor's Results**

#### **Financial Statements**

Type of opinion issued: [unqualified, qualified, adverse, disclaimer]

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ No

Reportable condition(s) identified that are  
not considered to be material weakness(es)? \_\_\_\_\_ Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ No

#### **Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ No

Reportable condition(s) identified that are  
not considered to be material weakness(es)? \_\_\_\_\_ Yes \_\_\_\_\_ None reported

Type of opinion issued on compliance for

major programs:<sup>i</sup> [unqualified, qualified, adverse, disclaimer]

Any audit findings disclosed that are required

to be reported in accordance with Section

510(a) of Circular A-133? \_\_\_\_\_ Yes \_\_\_\_\_ No

Identification of major programs:<sup>ii</sup>

***CFDA Number(s)<sup>iii</sup>***

***Name of Federal Program or Cluster<sup>iv</sup>***

Dollar threshold used to distinguish

Between Type A and Type B programs: \$ \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 20\_\_***

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**Section II - Financial Statement Findings (GAGAS)**

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
02-1	Compliance	<u>Finding:</u> Of 100 payments selected for testing, 55 payments to various vendors were found to have been deposited into the personal accounts of a former employee. This employee would make copies of an invoice and assign a new purchase order number to these copies. These copies would then be submitted for payments to vendors. <u>Recommendation:</u> The _____ should require that invoices be cancelled upon payment and only original invoices be used for vendor payments.	\$21,379
02-2	Compliance		
02-3	Compliance		
02-4	Internal Control	<u>Finding:</u> An entity's internal control system should include the proper segregation of duties that reduces the opportunities for individuals to be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties. The _____'s system allows individuals who receipt funds to also have the ability to void transactions and adjust charges. <u>Recommendation:</u> A system of controls should be implemented to prevent persons who have the capability of receipting funds from also being able to void transactions and adjust changes. <u>Auditee Response:</u> The auditee disagreed with this finding. See Corrective Action Plan [include this section in Schedule only if auditee disagrees with the audit finding].	

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 20\_\_***

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**Section III - Federal Awards Findings and Questioned Costs<sup>v</sup>**

<b>Ref. No.</b>	<b>CFDA No</b>	<b>Program</b>	<b>Findings/Noncompliance</b>	<b>Questioned Costs</b>
02-7	99.959	U.S. Department of Health and Human Services: Passed through the Alabama Department of Mental Health/Mental Retardation, Block Grants for the Prevention and Treatment of Substance Abuse	<u>Finding:</u> Allowable Cost/Cost Principles require that payroll charges be supported by time and attendance records. Timesheets were not maintained reflecting the allocation of time worked on federal and non-federal programs. <u>Recommendation:</u> Timesheets reflecting the allocation of time worked on federal and non-federal programs should be maintained.	\$ 37,758

<sup>i</sup> If the audit opinion for one or more major programs is other than unqualified, indicate the type of opinion issued for each program. For example, if the opinion on major program compliance for an auditee having five major programs includes an unqualified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows: "Unqualified for all major programs except for [name of program], which was qualified and [name of program], which was a disclaimer."

<sup>ii</sup> Major programs should generally be identified in the same order as reported on the Schedule of Expenditures of Federal Awards.

<sup>iii</sup> When the CFDA number is not available, include other identifying number, if applicable.

<sup>iv</sup> The name of the federal program or cluster should be the same as that listed in the Schedule of Expenditures of Federal Awards. For clusters, auditors are only required to list the name of the cluster and not each individual program within the cluster.

<sup>v</sup> See OMB Circular A-133, Subpart E, Section .510 (b) for guidance regarding the information that should be included in each audit finding.

**NOTE**

In situations where there are no findings or questioned costs, Section I - Summary of Auditor's Results should always be prepared and in Section II - Financial Statement Findings and Section III - Federal Awards Findings and Questioned Costs, the following statement should be included: "The audit did not disclose any findings or questioned costs required to be reported."



**REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL  
HEALTH/MENTAL RETARDATION CONTRACT**  
*(When the auditor's procedures disclose no material instances of noncompliance)*

(Addressee)

We have audited contract/grant/agreement numbers \_\_\_\_\_ between the Department of Mental Health/Mental Retardation (DMH/MR) and (name of organization) as of and for the year ended \_\_\_\_\_.

Compliance with DMH/MH contract(s)/grant(s)/agreement(s), and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management. As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH/MR Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH/MR contract/grant/agreement, and all applicable laws, and regulations.

This report is intended for the information of management and DMH/MR. However, this report is a matter of public record and its distribution is not limited.

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Name of Firm

(Date)

**REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL  
HEALTH/MENTAL RETARDATION CONTRACT**  
*(When the auditor's procedures disclose material instances of noncompliance)*

(Addressee)

We have audited contract/grant/agreement numbers \_\_\_\_\_ between the Department of Mental Health/Mental Retardation (DMH/MR) and (name of organization) as of and for the year ended \_\_\_\_\_.

Compliance with DMH/MH contract(s)/grant(s)/agreement(s), Provider Agreement and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management.

As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH/MR Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed the following material instances of noncompliance:

(Include paragraph(s) describing the material instances of noncompliance noted.)

This report is intended for the information of management and DMH/MR. However, this report is a matter of public record and its distribution is not limited.

\_\_\_\_\_  
Name of Firm

(Date)

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## AUDITEE LETTERHEAD

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### *Summary Schedule of Prior Audit Findings*

*For the Year Ended September 30, 20\_\_*

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As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(b), the (*Name of Auditee*) has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2XXX.

#### **Finding**

**Ref.**

**No.**

**Status of Prior Audit Finding**

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02-01      Corrective action was taken.  
02-01.1 We are in the process of revising our Cash Management policies and procedures to eliminate excess draw downs. We plan to have this completed by June 30, 2XXX.

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#### **Note to Auditor**

**Items to be included on this Schedule:** All audit findings included in the prior audit's Schedule of Findings and Questioned Costs relative to Federal Awards should be included. In addition, audit findings included in the prior audit's Summary Schedule of Prior Audit Findings should be included except findings listed as corrected in accordance with Section \_\_.315(b)(1) or no longer valid or not warranting further action in accordance with Section \_\_.315(b)(4).

1. When prior audit findings have been corrected, list the reference number and state, "Corrective action was taken".
2. When prior audit findings have not been corrected or only partially corrected, describe the planned corrective action as well as any partial corrective action taken.
3. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, provide an explanation.
4. When the auditee believes the prior audit findings are no longer valid or do not warrant further action, the reasons for this position should be described. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

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## AUDITEE LETTERHEAD

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- a. Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
- b. The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding, and
- c. A management decision was not issued.

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***Corrective Action Plan***  
***For the Year Ended September 30, 20\_\_***

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As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the *(Name of Auditee)* has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 20\_\_.

**Finding**  
**Ref.**  
**No.**

**Corrective Action Plan Details**

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**02-01**      ***Finding: [Repeat Finding and be sure to include the Reference Number.]***

***Response: [Each corrective action should include the following:  
Name(s) of Contact Person(s) responsible for corrective action;  
Corrective action planned; Anticipated Completion Date]***

***If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan should include an explanation and specific reasons.***

***[Repeat above for each finding reflected in Sections II and III of the current year's Schedule of Findings and Questioned Costs.]***

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***Other Matters in Report<sup>1</sup>***  
***For the Year Ended September 30, 20\_\_***

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**Finding:**      *The finding included in the letter should be restated.*

**Response:**    *Your plans for correcting the finding.*

***Repeat above for each additional finding included in the letter.***

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<sup>1</sup> This section would include findings other than those related to *Government Auditing Standards* and/or Federal programs (e.g., state legal compliance, etc.).

**APPENDIX II**

**SPECIAL COMPLIANCE AUDIT INFORMATION**

## **PROLOGUE**

The accompanying legal compliance information has been provided to help familiarize auditors with some of the legal requirements applicable to mental health centers. The accompanying legal compliance information is subject to change and it is the responsibility of the auditor performing the audit of a mental health center to ensure that the appropriate legal compliance testing is performed based on the most recent applicable laws and regulations.

## Mental Health Centers

The information contained in this section is applicable to CPA's performing audits of mental health centers. Further information may be secured by contacting the Department of Examiners of Public Accounts Coordinator of Mental Health Audits.

### General

This section relates to mental health centers organized pursuant to Act No. 310, Acts of Alabama 1967, Page 853, which are frequently referred to as "310 Boards". Said act is codified at Code Sections 22-51-1 through 22-51-14.

Code Sections 22-51-3 through 22-51-7 provide for the incorporation of regional mental health programs and facilities (mental health centers). Code Section 22-51-2 provides that "...any number of natural persons, not less than three, may form a public corporation to contract with the State Board of Health or the Alabama Department of Mental Health and Mental Retardation in constructing and operating facilities and in carrying out programs in particular areas of the state". Code Section 22-51-6 provides that said corporation "...shall constitute a public corporation vested with the rights and powers granted in this chapter under the name set forth in such certificate of incorporation". Code Section 22-51-8 provides for the appointment, composition, qualifications, etc., of board members and specifically provides that the board members of mental health centers shall receive no compensation for their services. Code Section 22-51-9 provides that the board shall hold monthly meetings and such special meetings as may be called. Code Section 22-51-11 enumerates certain powers authorized to the corporation, in addition, to other powers granted elsewhere in the chapter. Code Section 22-51-13 provides that "...corporations authorized in this chapter and their property, including bonds, conveyances, mortgages, leases and deeds, and all income from such property and the operation of programs shall be exempt from all taxation, and no excise tax may be imposed on any corporation for the privilege of engaging in any of the activities authorized by this chapter; provided, that the corporation must adhere to minimum standards for licensure as provided by Chapter 50". Code Section 22-51-14 provides for appropriations by local governing bodies. Code Section 22-51-14 relates to appropriations by local governing bodies. As to immunity from suit and civil liability of not for profit corporations, associations or organizations, see Title 10, Chapter 11 of the Code of Alabama.

### Specific Compliance Areas

#### Board Members

Board members of mental health centers shall receive no compensation for their services. Board members may be reimbursed for their actual and necessary expenses incurred while on board business.

Public corporations are prohibited from contracting with board members. Board members may not obtain a loan using board funds



A board member should not seek a position at a mental health center for a relative. If the relative of a board member does apply for a position at a mental health center said employment requires the unanimous concurrence of the board. The board member of a relative applicant should recuse himself or herself from the hiring process.

### Employees

No employee of a mental health center, the Department of Mental Health or the Department of Human Resources is to be directly or indirectly interested in a contract between a mental health center and the Department of Mental Health.

A mental health center may provide a group health insurance plan for employees and their dependents and implement a deferred compensation plan.

Token awards for employee services are allowed.

A mental health center may pay the expense of additional training for employees relating to their work.

### Security For Alabama Funds Enhancement (SAFE) Act

Mental health centers organized pursuant to Act No. 310, Acts of Alabama 1967 (“310 Boards”) are subject to the provisions of the Security for Alabama Funds Enhancement (SAFE) Act. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Section 41-14A-1 through 41-14A-14. All covered public entities as defined under the Act are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs). These funds are protected through a collateral pool administered by the Alabama State Treasurer’s Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30<sup>th</sup> to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.

## Other

Public corporations, unless otherwise excluded, are subject to the provisions of the State Competitive Bid Law and the State Public Works Law.

In accordance with contracts with the Department of Mental Health, the “310 Boards” may not expend funds to support candidates for public office or to support or oppose legislation before Congress or the State Legislature.

A mental health center board has authority to determine reasonable fees for its services and collect them. It may grant a discount for prompt payment, but there is no authority for a public corporation to act as a surety on any loan providing for payment of a patient’s bill.

## Attorney Generals’ Opinions

Attorney General Opinions referenced below relate to public corporations organized under Section 22-51-1 et seq., (Act No. 310, 1967) and do not necessarily represent all opinions issued during the cited periods.

- Attorney General Opinion 79-00206, dated May 24, 1979, written to Calhoun County Commission Chairman Jack D. Boozer, opined that the property of a county health department is owned by the county and may be labeled as such. However, property of a mental health center belongs to the center although it is bought with county appropriations.
- Attorney General Opinion 80-00025, dated October 19, 1979, written to Chambers County Probate Judge O. D. Alsobrook, determined that the board of directors of the East Alabama Mental Health Center may legally pay the dues of the Center Director to the Alabama Council of Mental Health-Mental Retardation Directors when these dues will in the future be used, in part, to pay the salary of an Executive Secretary for the Council. It was proffered that the Council is concerned with numerous mental health programs in which the Center also has a legitimate interest and the authority to promote.
- Attorney General Opinion 80-00492, dated August 6, 1980, written to R. G. Britton, Commissioner of the State Board of Corrections, determined that the Northwest Mental Health Center does not have available to it the doctrine of sovereign immunity created by Article I, Section 14 of the Constitution of 1901 read in conjunction with the Eleventh Amendment of the Constitution of the United States.

- Attorney General Opinion 82-00225, dated March 3, 1982, written to Dr. William D. Boyd and Dr. Allen R. Goodwin of the Mental Retardation Board of Bibb, Pickens and Tuscaloosa Counties, Inc., opined that a regional mental health board may implement a deferred compensation plan for its employees.
- Attorney General Opinion 82-00262, dated March 24, 1982, written to Glenn Ireland, II, Commissioner of the Department of Mental Health, determined that corporations providing mental health services are not exempt from the utilities gross receipt tax levied pursuant to Code Section 40-21-80 et seq.
- Attorney General Opinion 82-0310, dated April 29, 1982, written to David A. Harvey, Executive Director to the Calhoun-Cleburne Mental Health Board, Inc., concluded that a proposed amendment to the articles of incorporation of a mental health board in order to be adopted is to be approved by a majority of the governing bodies having members on the board.
- Attorney General Opinion 82-00442, dated July 13, 1982, addressed to Dr. Alan R. Goodwin, Executive Director of Indian Rivers, concluded that regional mental health boards are public corporations not subject to Section 68 of the Alabama Constitution: however, year-end merit awards to employees of such boards should be approved by the Department of Mental Health.
- Attorney General Opinion 83-00217 written to Stephen H. Scott, Executive Director of the Baldwin County Mental Health Center, dated March 7, 1983, determined that a mental health board may contract with a private non-profit corporation to build a building for the private corporation to use as a school in which services will be provided which accord with the purpose of such mental health board. Such Board must maintain direction and control of the building and the activities conducted therein.
- Attorney General Opinion 83-00377, dated July 5, 1983, addressed to Henry K. Stough, Executive Director of the Montgomery Mental Health Authority, determined that board members by statute are prohibited from receiving compensation for their services. However, since the board is a public corporation, the State law relative to travel expense is not applicable. As a public corporation govern by a board of directors, it can set a rate for expenses or pay actual expenses. It is also possible that the county or municipal body, which authorizes its formation, might pay expenses for board members.
- Attorney General Opinion 83-00444, written to Mr. Ken Wallis, Receiver and Acting Commissioner of the Department of Mental Health, dated August 18, 1983, opined that “310 Boards” cannot establish a quorum requirement greater than three members for the transaction of business by the board of directors.
- Attorney General Opinion 83-00457, dated September 1, 1983, written to Warrine Jones, President of the Mental Health Retardation Center at Opelika Alabama,

determined that the State Department of Mental Health may set out certain qualifications for the executive director and program directors of local mental health centers but that the department cannot require that these individuals must be approved by the State Department of Mental Health.

- Attorney General Opinion 84-00088, dated December 5, 1983, addressed to Carol Duncan, Executive Secretary of the Northwest Alabama Mental Health Center, found that certification by the State Board of Examiners in Psychology is required for psychologists employed at regional mental health centers. These psychologists are not exempted under mental health center certification.
- Attorney General Opinion 84-00142, dated January 30, 1984, written to Dr. Jerry A. Lovett, Executive Director of the Northwest Alabama Mental Health Center, opined that a regional mental health center may contract with hospitals, physicians and other entities for the staff of the center to provide services to patients at the request of the physician or entity. There is no further need for certification other than that required for the mental health center by the State Department of Mental Health and State Health Department.
- Attorney General Opinion 84-00289, dated May 24, 1984, written to Patricia J. Martin, Executive Director of the Cahaba Regional Mental Health/Mental Retardation Center, discussed the center's policy relating to jury duty and military leave. It was determined that the jury policy of the mental health facility did not conflict with law but that the personnel policy concerning military leave conflicted with State law.
- Attorney General Opinion 85-00018, dated October 10, 1984, addressed to James Stivers, Executive Director of Community Mental Health Center, determined that a member of an appointing authority (city/county governing body) may be employed by a regional board of health, but may not vote on appointments or appropriations to the board. Appointees of the board may be a member of the appointing authority, under the facts presented.
- Attorney General Opinion 87-00178, dated May 20, 1987, written to Sid Holcomb, President of the DeKalb Commission, determined that the millage tax collected by DeKalb County pursuant to Amendment No. 65 may be used for supporting the regional mental health center which serves the county, indigent hospital care, and meeting the county's responsibility under the Health Care Responsibility Act.
- Attorney General Opinion 87-00181, dated May 20, 1987, written to Bobbye Phillips, President of the North Alabama Regional Mental Health Authority, stated that Act No. 310 authorizes counties and municipalities to contract with the State Board of Health or the Alabama Mental Health Board in constructing and operating facilities to combat all forms of mental or emotional illness. The facilities receiving funds from federal, State and local governments are governed

by a board of directors whose members are appointed by the governing bodies of cities and counties in which the facilities are located. The center as a public corporation created by statute has only the powers conferred by law. The buildings of the center can only be used for those purposes, which are specifically provided for in Act No 310, which authorized its creation.

- Attorney General Opinion 89-00399, dated August 22, 1989, written to State Senator Mac Parsons, concluded that regional community mental health boards in contracting for the construction, operation and maintenance of mental health facilities must comply with minimum standards of construction, maintenance and operation adopted by the Alabama Mental Health Finance Authority, but, the ultimate direction and control of the facilities and programs rests with the regional boards.
- Attorney General Opinion 90-00114, dated January 23, 1990, written to Mr. Randolph Reaves, stated that speech pathologists and audiologists employed by a mental health center are not exempt from licensure under Section 34-28A-3(4) of the Code.
- Attorney General Opinion 97-00165, dated April 21, 1997, written to Patrick H. Tate, Attorney for the DeKalb County Retardation Board, concluded that a community mental health center may not provide services in an area of the State unless the local governing body has approved the application for incorporation or any amendment thereto setting out the area to be served. It was further opined that local governing bodies may authorize more than one public corporation, “310 Board,” to provide community mental health services with its geographical area.
- Attorney General Opinion 97-00284, dated September 19, 1997, written to Etowah County Commission Attorney James E. Turnback, determined that funds derived from the tax levied by Act No. 95-284, as amended by Act No. 97-464, are to be divided as directed therein. The portion designated for “Mental Retardation 310 Center” is to be distributed equally among the several “310 Boards” in the county which implement the mental retardation aspects of the programs they are authorized by statute to address.
- Attorney General Opinion 99-00063, dated December 16, 1998, addressed to Henry K. Stough, Executive Director Montgomery Area Mental Health Authority, determined that a professional staff member of a regional mental health agency who meets the Alabama Medicaid Agency or Alabama Department of Mental Health rules and/or requirements to provide examination, assessments, and treatment to persons suffering from a mental illness, may be considered by the probate judge as a “qualified mental health professional” for purposes of Section 22-52-7(c) of the Code.
- Attorney General opinion 2002-091, dated December 11, 2001, addressed to H. A. Lloyd, Attorney for the West Alabama Mental Health Board, held that the West

Alabama Mental Health Board may not form an executive committee nor prescribe qualification standards for members who may serve as directors of that corporation. The board must follow the provisions of its enabling statute.

- Attorney General Opinion 2003-017, dated October 30, 2002, written to H. A. Lloyd, Attorney for the West Alabama Mental Health Board, concluded that the West Alabama Mental Health Board is a public corporation subject to the Competitive Bid Law and the Public Works Law.

## **RESOURCE MATERIALS FOR AUDITS OF MENTAL HEALTH CENTERS**

### **Examination of Financial Statements**

GASB Codification of Governmental Accounting and Financial Reporting Standards (Can be Obtained from: The Governmental Accounting Standards Board, 401 Merritt 7, P. O. Box 5116, Norwalk, CT, 06856-5116)

AICPA Audit and Accounting Guides – State and Local Governmental Units and Government Auditing Standards and Circular A-133 Audits \*

AICPA Codification of Statements on Auditing Standards\*

\* These documents can be obtained from the American Institute of Certified Public Accountants, via the internet at <http://www.aicpa.org>

### **Single Audits**

Single Audit Act Amendments of 1996 (Public Law 104-156)

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations\*\*

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments\*\*

OMB Circular A-133 Compliance Supplement\*\*

Government Auditing Standards issued by the Comptroller General of the United States (Yellow Book)

\*\* These documents may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 or via the internet at [www.access.gpo.gov](http://www.access.gpo.gov)